

February 26, 2008

### Rating Information

Sector Rating	Market Weight
Target Price YE '08	\$650.00
Long-Term Growth	36.26%

### Trading Data

52-Wk Range	\$437.00 - \$747.24
Market Cap.	\$159,134 MM
Shares Out.	313.4 MM
Dividend Yield	0.0%
Avg Daily Vol.	5,660,000
Float	NA
Source: FactSet	

### Fundamental Data

EV/EBITDA	22.0x
Enterprise Value	\$153,052.4 MM
LT Debt to Total Cap.	0.0%
Book Value	\$72.40
Source: FactSet	

### Price Performance Chart



Source: FactSet

Securities in this report priced as of:

February 25, 2008 16:00 ET

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## Google (GOOG-\$486.44-Outperform)

### Domestic Paid Leads Growth Flat YoY for Google, Up for Yahoo!, Down for Microsoft

- Flat Paid Leads Growth For Google.** comScore reported 532mn domestic paid clicks in Jan. 08, flat YoY, but down 12% sequentially (Jan. 08 vs. Oct. 07). The click through rate was the lowest since comScore stated reporting this data and was down 200bp from levels in 4Q and down 400bps from levels in 1Q of last year. While this is one data point for domestic google.com only and from one source, which may or may not be accurate, it is a concerning data point and somewhat reflects what we have heard from SEMs - that they were not seeing a high volume of clicks from consumers possibly due to the economic slowdown.
- Will Continue to Monitor Trends.** Note that Google reported a 30% YoY growth rate in overall (global) paid leads in 4Q07 and comScore reported growth of 25% YoY for domestic google.com paid leads for 4Q. While not an apples-to-apples comparison, we will continue to monitor the comScore numbers for Feb and Mar before definitive conclusions can be drawn.
- Valuation.** Google currently trades at 16x '08 EBITDA, with EBITDA growth of 27% in 2008. The shares are attractive at these trading levels, in our view. Google remains the dominant company within the online advertising industry, with healthy growth prospects that should lead to market share gains, a strong balance sheet, and generates significant amounts of free cash flow.
- 15% Paid Leads Growth For Yahoo!.** comScore reported 242mn domestic paid clicks in Jan. 08, up 15% YoY, but down 3% sequentially. Yahoo!'s click through rate declined about 1% from levels in 4Q but was up about 1% from levels in 1Q07.
- Paid Leads At Microsoft Declined 9% YoY.** comScore reported 93mn domestic paid clicks in Jan. 08, down 9% YoY, but flat sequentially. MSN's click through rate was down slightly from levels in 4Q but was down about 350bp from levels in 1Q07.

**Sector View:** We are bullish on the fundamentals of the online advertising industry.

### GAAP Estimates Post Option Expense †(All values are in USD)

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E
2006	1.95	2.33	2.36	3.29	9.93	49.0x
2007	3.18	2.93	3.38	3.79E	13.29E	36.6x
2008					15.63E	31.1x

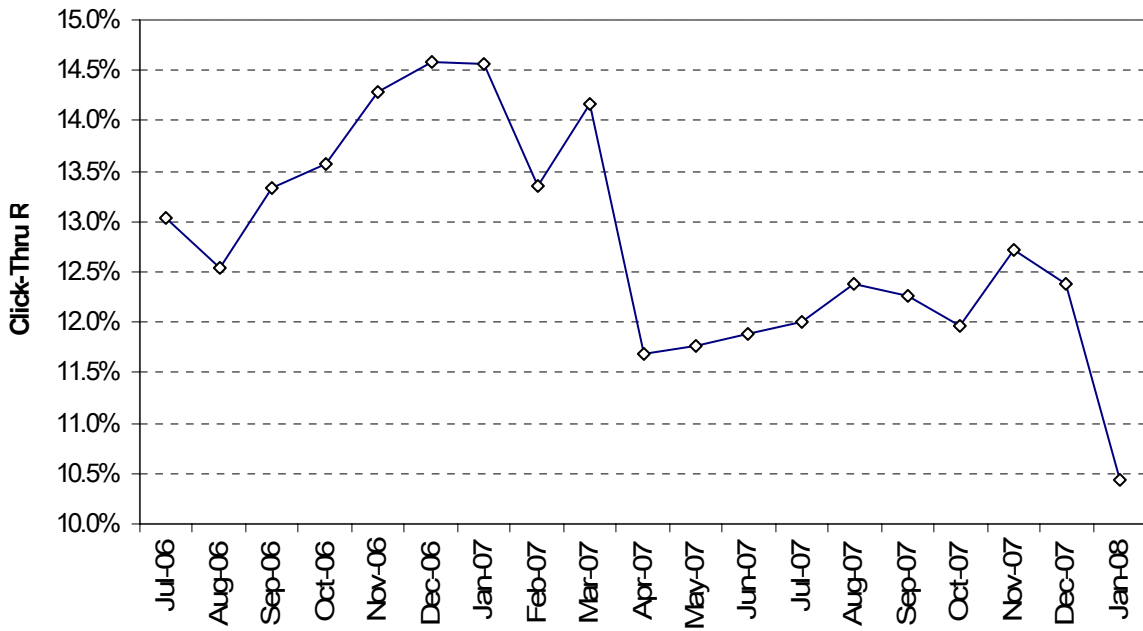
† All numbers are after stock-based compensation expense, normalized consistent with BSC option expense policy.

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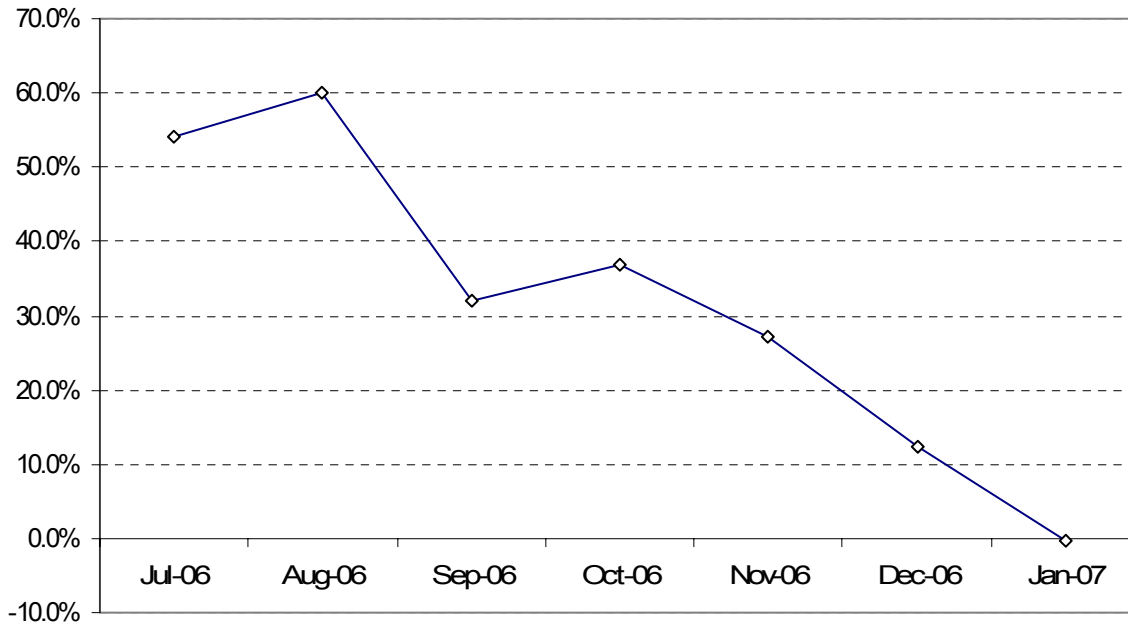
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Google U.S. Click-Thru Rates



Google U.S. Paid Leads YoY Growth Rates



Source: Company data

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Robert Peck

### Companies Analyzed

\* Google (GOOG) - \$486.44 (as of February 25, 2008 16:00 ET) - Outperform

Price Target ('08): \$650.00

Risk(s) to Price Target - Existing and emerging competition in the online advertising industry; our YouTube, Radio, and Print expectations prove too optimistic

Valuation Methodology - DCF with a WACC of 10%.

\* Yahoo! Corp. (YHOO) - \$28.13 (as of February 25, 2008 16:00 ET) - Outperform

\* Microsoft Corp. (MSFT) - \$27.84 (as of February 25, 2008 16:00 ET) - Peer Perform (covered by John DiFucci)

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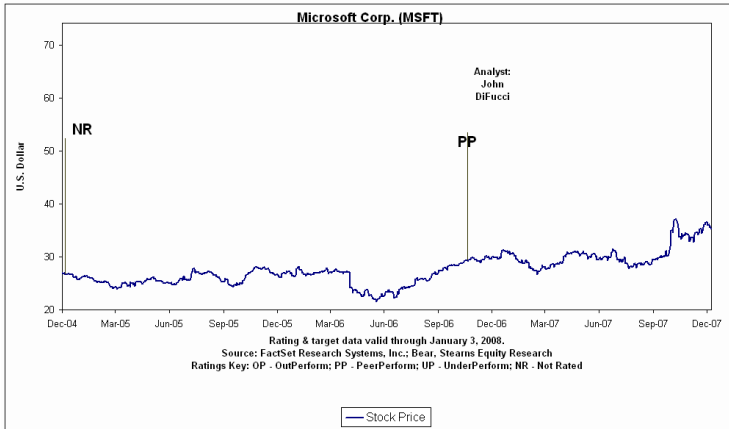
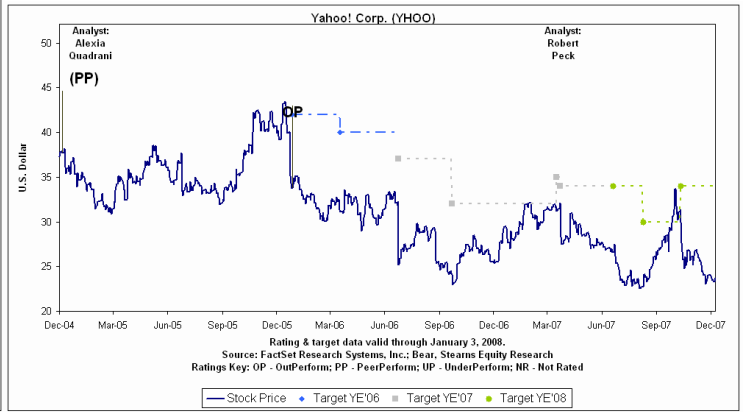
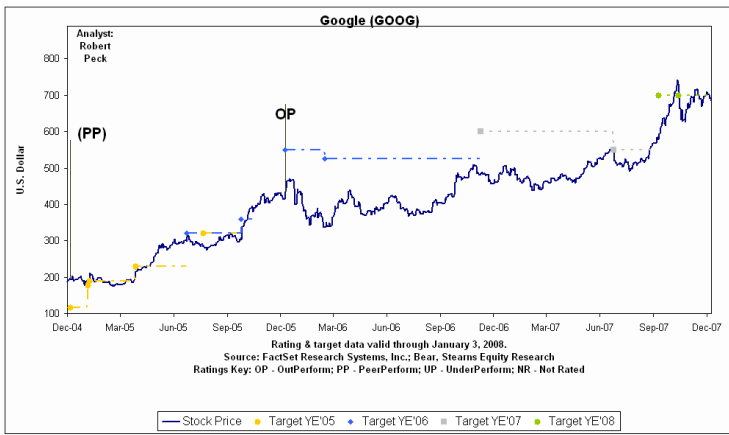
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Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

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Outperform (Buy): 45.0 / 14.3

Peer Perform (Neutral): 46.5 / 9.4

Underperform (Sell): 8.5 / 6.3

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